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June 9, 2009

TO: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe *Wendy L. Watanabe*  
Auditor-Controller

SUBJECT: **LEROY HAYNES CENTER FOR CHILDREN AND FAMILY SERVICES  
CONTRACT REVIEW – A DEPARTMENT OF MENTAL HEALTH  
SERVICE PROVIDER**

We completed a program and fiscal contract compliance review of Leroy Haynes Center for Children and Family Services (Leroy Haynes or Agency), a Department of Mental Health (DMH) service provider.

**Background**

DMH contracts with Leroy Haynes, a private, non-profit, community-based organization that provides services to clients in Service Planning Area 3. Services include interviewing program clients, assessing their mental health needs and developing and implementing a treatment plan. The Agency's headquarters is located in the Fifth District.

DMH paid Leroy Haynes on a cost reimbursement basis between \$1.89 and \$4.41 per minute of staff time (\$113.40 to \$264.60 per hour) for services or approximately \$2.5 million for Fiscal Year (FY) 2007-08.

**Purpose/Methodology**

The purpose of our review was to determine whether Leroy Haynes complied with its contract terms and appropriately accounted for and spent DMH program funds providing the services outlined in their County contract. We also evaluated the adequacy of the

Agency's accounting records, internal controls and compliance with federal, State and County guidelines. In addition, we interviewed Agency staff.

### **Results of Review**

Leroy Haynes maintained documentation to support the mental health services billed and staff assigned to the County contract possessed the required qualifications. However, Leroy Haynes did not always comply with the County contract requirements and billed DMH \$3,784 in questioned costs. Specifically, Leroy Haynes:

- Did not always complete some elements of the participants' Assessments and Client Care Plans in accordance with the County contract.
- Did not properly segregate their cash handling procedures. Specifically, the accountant reconciled the bank statements, recorded the cash in the Agency's accounting records and performed other bookkeeping functions.
- Charged DMH \$780 for consultant fees for services related to another program.
- Allocated \$3,004 in payroll costs for three employees without adequate documentation to support the allocation rates.

We have attached the details of our review along with recommendations for corrective action.

### **Review of Report**

We discussed the results of our review with Leroy Haynes and DMH on February 4, 2009. In their attached response, the Agency concurred with our findings and recommendations and agreed to reallocate payroll costs and remove the consultant fees from their Cost Report. DMH will follow up with the Agency to ensure the recommendations are implemented.

We thank Leroy Haynes management for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (213) 253-0301.

WLW:MMO:JET:DC

Attachment

c: William T Fujioka, Chief Executive Officer  
Dr. Marvin J. Southard, Director, Department of Mental Health  
Theodore Piatt, Sr., Chairman, Board of Directors, Leroy Haynes Center  
Daniel Maydeck, CEO and President, Leroy Haynes Center  
Public Information Office  
Audit Committee

**DEPARTMENT OF MENTAL HEALTH  
LEROY HAYNES CENTER FOR CHILDREN AND FAMILY SERVICES, INC.  
FISCAL YEAR 2008-09**

**BILLED SERVICES**

**Objective**

Determine whether Leroy Haynes Center for Children and Family Services (Leroy Haynes or Agency) provided the services billed in accordance with their contract with the Department of Mental Health (DMH).

**Verification**

We judgmentally selected 35 billings totaling 3,722 minutes from 123,607 service minutes of approved Medi-Cal billings for May and June 2008. We reviewed the Assessments, Client Care Plans and Progress Notes maintained in the clients' charts for the selected billings. The 3,722 minutes represent services provided to 20 program participants.

**Results**

Leroy Haynes maintained documentation to support the billed service minutes. In addition, the Agency completed Progress Notes in accordance with the County contract. However, the Agency did not always complete some elements of the Assessments and Client Care Plans in accordance with the County contract requirements.

**Assessments**

Leroy Haynes did not adequately describe the symptoms and behaviors exhibited by the client to support the Agency's clinical diagnosis for three (15%) of the 20 clients sampled on their Assessments. An Assessment is a diagnostic tool used to document the clinical evaluation of each client and establish the client's mental health treatment needs. The County contract requires Agencies to follow the Diagnostic and Statistical Manual of Mental Disorders (DSM) when diagnosing clients.

**Client Care Plans**

Leroy Haynes did not complete Client Care Plans for 15 (75%) of the 20 clients sampled in accordance with the County contract. Specifically:

- Thirteen Client Care Plans were not signed by the clients or parents/guardians indicating their participation in the development of the Client Care Plans as required by the contract.

- Two Client Care Plans did not contain goals and planned interventions for each type of treatment provided.
- Two Client Care Plans contained goals that were not observable and/or quantifiable.

The number of incomplete Client Care Plans in the examples above exceeds the total number of incomplete Client Care Plans because some of the Client Care Plans contained more than one deficiency.

**Recommendation**

1. Leroy Haynes management ensure that Assessments and Client Care Plans are completed in accordance with the County contract.

**STAFFING LEVELS****Objective**

Determine whether the Agency maintained the appropriate staffing ratios for applicable services.

We did not perform test work in this section as the Agency did not provide services that require staffing ratios for this particular program.

**Recommendation**

None.

**STAFFING QUALIFICATIONS****Objective**

Determine whether Leroy Haynes' treatment staff possessed the required qualifications to provide the services.

**Verification**

We reviewed the California Board of Behavioral Sciences' website and/or the personnel files for 13 of the 21 Leroy Haynes treatment staff who provided services to DMH clients during May and June 2008.

**Results**

Each employee in our sample possessed the qualifications required to provide the services billed.

**Recommendation**

**None.**

**CASH/REVENUE****Objective**

Determine whether cash receipts and revenues are properly recorded in the Agency's financial records and deposited timely in their bank account. In addition, determine whether there are adequate controls over cash, petty cash and other liquid assets.

**Verification**

We interviewed Leroy Haynes' management and reviewed the Agency's financial records. We also reviewed the Agency's July 2008 bank reconciliations for four bank accounts.

**Results**

Leroy Haynes properly deposited cash receipts in a timely manner. However, Leroy Haynes did not properly segregate their cash handling procedures. The accountant reconciled the bank statements, recorded the cash in the Agency's accounting records and performed other bookkeeping functions. In addition, the preparer and reviewer did not sign or date the bank reconciliations.

**Recommendations**

**Leroy Haynes management:**

- 2. Ensure that there is segregation of duties over cash handling procedures.**
- 3. Ensure that the preparer and reviewer sign and date the bank reconciliations.**

**COST ALLOCATION PLAN****Objective**

Determine whether Leroy Haynes' Cost Allocation Plan is prepared in compliance with the County contract and the Agency used the Plan to appropriately allocate shared program expenditures.

**Verification**

We reviewed the Agency's Cost Allocation Plan, interviewed management and reviewed their financial records.

**Results**

Leroy Haynes' Cost Allocation Plan was prepared in compliance with the County contract and the Agency allocated their shared program expenditures based on the Cost Allocation Plan.

**Recommendation**

None.

**EXPENDITURES****Objective**

Determine whether program expenditures were allowable under the County contract, properly documented and accurately billed.

**Verification**

We reviewed financial records and documentation to support 39 non-payroll expenditure transactions charged to the DMH program between June and September 2008, totaling \$42,221.

**Results**

Generally, Leroy Haynes' expenditures were allowable, properly documented and accurately charged to the DMH program. However, Leroy Haynes charged DMH \$780 for consultant fees that were for another program.

During the contract year, DMH pays Leroy Haynes a negotiated rate for their cost reimbursement contract. At the end of the contract year, if the Agency's revenues exceed the actual expenditures on their Cost Report, the Agency must repay DMH for the excess amount received.

**Recommendations**

**Leroy Haynes management:**

- 4. Revise the Fiscal Year (FY) 2007-08 Cost Report to reduce the reported program expenditures by \$780 and repay DMH for any excess amount received.**

5. Ensure that only allowable program expenditures are charged to the DMH program.

### **FIXED ASSETS AND EQUIPMENT**

#### **Objective**

Determine whether fixed assets depreciation costs charged to the DMH program was allowable under the County contract, properly documented and accurately billed.

#### **Verification**

We interviewed staff and reviewed the Agency's financial records related to fixed assets. In addition, we reviewed two fixed assets with depreciation costs of \$31,718 that the Agency charged to the program during FY 2007-08.

#### **Results**

Leroy Haynes appropriately charged DMH for the two items. However, the Agency did not perform an annual inventory of their fixed assets.

#### **Recommendation**

6. Leroy Haynes management perform an annual inventory of their fixed assets.

### **PAYROLL AND PERSONNEL**

#### **Objective**

Determine whether payroll expenditures were appropriately charged to the DMH program. In addition, determine whether personnel files are maintained as required.

#### **Verification:**

We traced the payroll expenditures for 18 employees totaling \$31,573 to the payroll records and time reports for the pay period ending August 23, 2008. We also interviewed eight employees and reviewed personnel files for the 18 employees.

#### **Results**

Leroy Haynes properly maintained their personnel files. However, the Agency allocated \$3,004 to the DMH program for three employees without adequate documentation to support the allocation rates used. Leroy Haynes management indicated they billed DMH for the three employees based on estimates not actual hours worked. The County contract requires the Agency to maintain timecards or time reports indicating total hours worked each day by program to support payroll expenditures billed to DMH.

**Recommendations**

Leroy Haynes management:

7. Provide documentation to support the \$3,004 charged to the DMH program and repay for amounts not supported.
8. Ensure that employees' timecards indicate the actual hours worked each day by program.

**COST REPORT**

**Objective**

Determine whether Leroy Haynes' FY 2007-08 Cost Report reconciled to the Agency's financial records.

**Verification**

We traced the Agency's FY 2007-08 Cost Report to the Agency's general ledger.

**Results**

The total Agency expenditures listed on Leroy Haynes' Cost Report reconciled to the Agency's accounting records.

**Recommendation**

None.





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March 18, 2009

Wendy Watanabe  
500 West Temple Street, Room 525  
Los Angeles, California 90012-2706

Dear Ms. Watanabe,

Enclosed is the Corrective Action Plan for the Leroy Haynes Center's Contract Review for Fiscal Year 2008-2009. Please contact me if there is a need for any further correction or action on the part of Leroy Haynes Center.

Frank Linebaugh  
Senior Vice President

**Leroy Haynes**  
**DMH FY 08-09 Fiscal Review**  
**Recommendation Response**

**BILLED SERVICES**

1. Leroy Haynes Center (LHC) will document completion of assessments, Client Care Plans, observable and/or quantifiable goals through the QA process and will withhold billing until verification of completion occurs.

**CASH/REVENUE**

2. LHC will continue to provide adequate segregation of duties in accordance with the level of staffing allowed by the agreement.
3. Staff Accountant, enters all deposits into the GL (bookkeeping), Accounting Clerk makes the deposit into the bank, and prepares the bank reconciliation. Bank reconciliation is reviewed and signed by CFO.

**EXPENDITURES**

4. LHC will reclass the \$780 to the appropriate program(s) and will ensure that expense is charged to the appropriate program.
5. While this mispost was an exception to the norm, additional oversight has been put into practice to avoid any future exceptions.

**FIXED ASSETS AND EQUIPMENT**


6. LHC is in the process of procuring software and hardware that will enable the implementation of a perpetual inventory system: assigned individual, location of asset, serial number or unique identifier, etc. Currently assets are monitored manually. The location of assets is watched carefully throughout the year by staff to assure assets and equipment do not disappear. However, LHC will implement a formal "annual" inventory of assets with the procurement of the new inventory software this year.

**PAYROLL**

7. LHC allocates 33% of Sr, VP Program time (Frank Linebaugh), 40% of IT Director time and 50% of nursing time to the Mental Health program. The VP and IT Director are indirect expenses and the nursing time is a direct expense. The Cost Allocation Plan will be revised to accurately reflect these expenses. The methodology used will be a percentage of total salary.

8. The nursing staff will begin immediately to indicate mental health activity hours vs. residential program hours on their time sheets.

Here at Leroy Haynes Center we strive continuously to be in compliance with the Auditor Controller handbook.

  
Sd. Vice President